

THE DIRECTOR OF
CENTRAL INTELLIGENCE

National Intelligence Council

14 Dec 1984

NOTE FOR: Director of Central Intelligence

FROM: Herbert E. Meyer, Vice Chairman
National Intelligence Council

1. As you requested, here is the final report of the President's Task Force on International Private Enterprise. Also attached is a letter that Butch Otter is sending out along with copies of the Report. Also signing Otter's letter are those members of the Task Force whose names are checked on Pages VIII and IX of the blue book.

2. After you have read this, I recommend you set a time for Butch Otter to come by for a chat.

3. Our own paper is set for publication next week.

HEM
Herbert E. Meyer

Atts: a/s

Additional Views of Members of the President's
Task Force on International Private Enterprise

We, as signatories to the full Task Force report, endorse it as a valuable contribution to the delineation of U. S. policy with respect to the role of private enterprise in the process of economic development of developing countries.

The President charged the Task Force to study and recommend what the U. S. government could, through its foreign assistance program and official policy, do to promote the growth of the private sector in developing countries, both through the direct involvement of the U. S. private sector as well as through public programs aimed at supporting growth of the private sector.

The role of private enterprise in economic development has been a contentious issue laden with much ideological weight and suspicion. As we look today at the Third World, we see that there are profound economic shifts now taking place in a number of developing countries and come to believe that this change will accelerate and expand. If we accept the premise that the economic system of a country can define its politics over the long term, it follows that there is the possibility of significant political realignment in the Third World. The key is that these economic shifts be made successfully which we believe to be the primary challenge to U. S. foreign assistance efforts in just the next few years. It is this challenge which prompts us to go beyond the report submitted by the full Task Force.

We offer these additional comments to both clarify and amplify points of substance, as well as emphasis, that are contained in the report. Our comments can be broken down into three separate areas; our concern with 1) the budgetary and developmental implications of certain recommendations dealing with subsidies; 2) the emphasis of some recommendations; and, 3) deferring the resolution of several key issues.

Subsidy

We recognize that foreign assistance is, essentially, a subsidy of one sort or another. The question that we have grappled with is not whether to have subsidies, but which subsidies would appear to offer the greatest chance of achieving privately driven, self-sustaining economic growth in developing countries.

This report contains recommendations of multi-billion dollar commitments to new subsidies in the form of expanded mixed credits and increased PL-480 sales. As businessmen we recognize that subsidies, either directly funded or in the form of risk reduction measures, will distort any private economy. Further, subsidies have the insidious habit of becoming institutionalized and creating economic dependencies in both the donor and recipient countries.

We do not see mixed credits or PL-480 as important factors in the stimulation of indigenous private sectors in developing countries. However, this observation does not diminish the validity of those recommendations as drafted in the report. Thus, we support the recommendations of the majority of the Task Force on these points with the proviso that;

- 1) they be clearly seen as interim measures and that neither become a permanent part of the economic landscape nor a source of interference in needed structural readjustments in domestic U. S. policy for agriculture or trade;
- 2) that the authorizing legislation for mixed credits should state that those credits only be used on a dollar-for-dollar match of other countries' subsidized credits and never as standard programs for developmental or export purposes; and,
- 3) that while expansion of PL-480 may well be justified in domestic economic terms when evaluated against the costs of other methods of controlling grain surplus, we must establish sufficient controls on the program that will assure us that subsidized food does not ultimately harm the recipient country's agricultural sector nor allow us to avoid facing the dilemma of our own agricultural policies.

Growth of the Private Sector in Developing Countries

We recognize that by its very nature, the promotion of private enterprise in economic development cannot be force-fed by the U. S. government. There are limited things that the U. S. government can, and should, properly do in this field. Private enterprise will participate in the development process if the environment is sufficiently congenial and the entrepreneurs have access to sufficient resources.

Traditionally, the policy environment in a majority of the developing world has been unsupportive of, even hostile to, the private economy. While opposition to private enterprise has abated dramatically in the last year, the existing high level of debt compounded by reduced capital flows has deprived companies of the resources needed to take advantage of this changed environment. This highlights the urgent need for an infusion of debt and equity capital to the private sector as opposed to additional debt for the public sector.

Therefore, the policies pursued by the developing countries themselves, and the ability of the private sector to obtain and productively use capital are the two most crucial elements to the developing economies generally, and their private sectors specifically. Under your administration, A. I. D. recognized these problems by making "policy dialogue" and support for the private sector cornerstones of their policy.

The Task Force reviewed all foreign assistance efforts over the last 18 months and strongly supports these efforts, but identified a number of problems and suggested solutions. The Task Force also noted reservations about the appropriateness of AID's role in implementing these solutions, however, the report only suggests further study.

We feel that the Task Force has had sufficient exposure to the problems to suggest specific solutions in several areas. The three primary problems of greatest concern to us are noted in the main report, but are not adequately emphasized, nor do the proposed solutions go far enough.

Policy Dialogue: This is the key, perhaps single most important undertaking of foreign assistance. But the U. S. government now has insufficient leverage to effect enough of the desired changes. The thrust of our humanitarian assistance should not be altered, but assistance which is for economic development should be clearly made conditional upon policy changes which will allow those funds to work, not be wasted. Future foreign assistance programs should be designed to provide our policy makers with the necessary leverage to direct and support policy change.

Private Sector Support: The funds earmarked in our foreign assistance budget that will go directly to the private sector of less developed countries are, we all agree, totally insufficient. While the main report suggests that the "bulk" of foreign assistance funds be re-directed to the private sector, it does not offer adequate guidance on the institutional arrangements that would be necessary to manage these funds other than noting that present arrangements are inadequate, but only recommending a different emphasis within existing programs. There are, however, a number of successful and acceptable public models that can and should be examined immediately, such as World Bank's International Finance Corporation and Britain's Commonwealth Development Corporation.

Institutional Arrangements: AID has done a good job of providing humanitarian assistance and disaster relief. Clearly Congress and the employees of AID are more comfortable with this role. By their own admission, the private sector efforts of AID have not been strongly supported internally. However, the main report defers consideration of institutional changes to the proposed Economic Security Advisor. While we strongly support the recommendation suggesting the creation of this position, we feel that the evidence; 1) clearly suggests AID should not be forced into an uncomfortable and secondary private sector role; 2) that there are more viable institutional alternatives; and, 3) establishing these alternatives is of such importance that they should not be deferred to a person whose position has not been created.

Thus, we question whether A. I. D. is the appropriate institution to carry out the private sector mandate of our foreign assistance efforts, especially in view of the historic changes underway. An enhanced charter and the portion of the foreign assistance budget earmarked for the private sector should be given to the Overseas Private Investment Corporation or some new organization. This is clearly the appropriate policy decision in our opinion and one which echoes a previous Presidential Task Force which examined this subject (Peterson Commission, 1972) and your own transition committee report on this subject.

Signatories:
